

## Message Text

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ORIGIN NEA-10

INFO OCT-01 ISO-00 SS-15 NSC-05 AID-05 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 /073 R

DRAFTED BY NEA/RA:HMMONTGOMERY:JR

APPROVED BY NEA:SSOBER

NEA/IRN:RBEALES (SUBS)

NEA/ARP:FDICKMAN (INFO)

E:RPOATS (SUBS)

EB/CSB:DBRAMANTE (SUBS)

O / AGNE:PHALE (SUBS) TR

S/S-O:JHOGANSON

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P R 210258Z JAN 76

FM SECSTATE WASHDC

TO AMEMBASSY TEHRAN PRIORITY

INFO AMEMBASSY JIDDA

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E.O. 11652: N/A

TAGS: BEXP, ECRE, IR, XF

SUBJECT: CONSTRUCTION INDUSTRY: BANK GUARANTEES AND  
SURETY BONDS

REF: STATE 13709

1. SUMMARY. AS EMBASSY AWARE, BANK GUARANTEE REQUIREMENTS  
HAVE HAMPERED U.S. FIRMS SEEKING CONTRACTS ON PROJECTS OF  
IRANIAN AND OTHER MIDDLE EAST GOVERNMENTS. EMBASSY VIEWS  
REQUESTED ON LIKELY UTILITY OF VISIT BY INDUSTRY/USG  
REPRESENTATIVES TO ADVOCATE ACCEPTANCE OF SURETY BONDS AS  
UTUALLY ADVANTAGEOUS ALTERNATIVE TO BANK GUARANTEES. END  
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SUMMARY.

2. FOR SOME MONTHS, WASHINGTON AGENCIES HAVE BEEN GRAPPLING WITH COMPETITIVE PROBLEM FACED BY U.S. CONTRACTORS IN MIDDLE EAST BECAUSE OF HOST GOVERNMENT REQUIREMENTS FOR BANK GUARANTEES. THIS CREATES SEVERE WORKING CAPITAL PROBLEMS FOR U.S. FIRMS. PRESENT SYSTEM ALSO HANDICAPS HOST GOVERNMENTS IN ATTRACTING BROAD COMPETITION FOR PROJECTS AND IN ASSURING THEIR COMPLETION.

3. IT NOW HAS BEEN PROPOSED (REFTEL) THAT EXPERT MISSION REPRESENTING CONSTRUCTION, SURETY, AND BANKING INDUSTRIES AND USG AGENCIES VISIT SAUDI ARABIA WEEK OF FEBRUARY 14 TO WORK WITH EMBASSY ON PROBLEM IN THAT COUNTRY.

4. OUR IMPRESSION IS THAT COMPARABLE, IF POSSIBLY LESS ACUTE, PROBLEM EXISTS IN IRAN. WE UNDERSTAND GOI REQUIREMENT, AS MATTER OF LAW, IS FOR BID GUARANTEES RANGING FROM 2 1/2 PERCENT TO 10 PERCENT AND FOR PERFORMANCE OR "FINAL" GUARANTEES OF 10 PERCENT OF PROJECT COST. AS GENERAL RULE, GUARANTEES TO OWNERS ARE ISSUED, WITH AUTHORIZATION OF CENTRAL BANK, BY IRANIAN BANKS AND COVERED BY LETTERS OF CREDIT DRAWN IN LATTERS' FAVOR BY CONTRACTORS' U.S. BANKS. WE ALSO UNDERSTAND REALITY IS RATHER MORE COMPLICATED; DESPITE VESTED INTEREST OF IRANIAN BANKS IN GUARANTEES, INTERPRETATION OF LAW AND PRACTICE OF GOI CONTRACTING ENTITIES AND CENTRAL BANK APPARENTLY IS NOT RPT NOT FULLY CONSISTENT. INSTANCES HAVE BEEN CITED WHERE SURETIES HAVE BEEN ACCEPTED OR THERE HAVE BEEN VARIATIONS IN GUARANTEE PROCEDURES. WE WOULD APPRECIATE YOUR CONFIRMING OR CORRECTING AND ELABORATING UPON RELEVANT LAW, PRACTICE AND DIMENSIONS OF PROBLEM IN IRAN.

5. SINCE INDIVIDUALS HIGHLY QUALIFIED TO ADDRESS PROBLEMS CREATED FOR U.S. CONTRACTORS BY BANK GUARANTEE REQUIREMENT, AND ADVANTAGES OF SURETIES, LIKELY TO BE VISITING MID EAST IN SECOND WEEK OF FEBRUARY, IT APPEARS APPROPRIATE TO CONSIDER WHETHER VISIT TO IRAN BY SEVERAL MEMBERS OF GROUP, EITHER BEFORE OR AFTER SAUDI VISIT, MIGHT BE USEFUL TO SUPPORT EMBASSY EFFORTS IN THIS AREA. WE WOULD APPRECIATE YOUR VIEWS. IF IDEA APPEARS TO HAVE MERIT, REQUEST LIMITED OFFICIAL USE

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YOU CONSIDER BEST APPROACH TO GOI, LIKELY AVAILABILITY OF KEY OFFICIALS, AND APPROPRIATE TIMING AND DURATION OF VISIT. (WE ARE MINDFUL OF U.S.-IRANIAN MEETINGS MARCH 1-3; SURETY BONDING PROPOSAL WOULD APPEAR TO OFFER POSSIBLE AGENDA ITEM FOR JOINT BUSINESS COUNCIL.)

6. PRELIMINARY REPLY NO LATER THAN C.O.B. WASHINGTON THURSDAY, JANUARY 22, WOULD BE APPRECIATED. SISCO

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## Message Attributes

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**Current Classification:** UNCLASSIFIED  
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**Draft Date:** 21 JAN 1976  
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**Disposition Approved on Date:**  
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**Disposition Comment:** 25 YEAR REVIEW  
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